

**RURAL UTAH CHILD DEVELOPMENT**  
**(A Non-Profit Organization)**

**FINANCIAL STATEMENTS**

**November 30, 2006**

# RURAL UTAH CHILD DEVELOPMENT

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**Jensen & Keddington, P.C.**

Certified Public Accountants

Jeffrey B. Jensen, CPA  
Gary K. Keddington, CPA  
Brent E. Christensen, CPA  
Jeffrey B. Hill, CPA**INDEPENDENT AUDITOR'S REPORT**Board of Directors  
Rural Utah Child Development

We have audited the accompanying statement of financial position of Rural Utah Child Development (a non-profit Organization) as of November 30, 2006, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Utah Child Development as of November 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United State of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2007 on our consideration of Rural Utah Child Development's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Rural Utah Child Development taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

*Jensen & Keddington*

June 21, 2007

**RURAL UTAH CHILD DEVELOPMENT  
STATEMENT OF FINANCIAL POSITION  
November 30, 2006**

<b>Assets</b>	
Accounts Receivable:	
U.S. Department of Agriculture	\$ 14,646
Head Start	242,873
Early Reading First	9,000
Other	7,207
Prepaid expenses	22,867
Deposits	500
Property and equipment - net	817,919
<b>Total Assets</b>	<b>\$ 1,115,012</b>
<b>Liabilities and Net Assets</b>	
<b>Current Liabilities</b>	
Cash overdraft	\$ 127,452
Accounts payable	134,158
Accrued expenses	99,025
Note payable	4,071
<b>Total Current Liabilities</b>	<b>364,706</b>
<b>Long-Term Liability</b>	
Note payable	108,260
<b>Total Long-Term Liability</b>	<b>108,260</b>
<b>Net Assets</b>	
Unrestricted	642,046
<b>Total Net Assets</b>	<b>642,046</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,115,012</b>

The accompanying notes are an integral part of these financial statements.

**RURAL UTAH CHILD DEVELOPMENT  
STATEMENT OF ACTIVITIES  
For Year Ended November 30, 2006**

<b>Unrestricted Net Assets</b>	
<b>Support</b>	
Federal Grant PA22	\$ 2,974,390
Federal Grant PA20	36,290
Federal Grant PA25	547,629
Federal Grant PA26	13,476
In-kind Services and supplies	934,777
Early Reading First Grant	9,000
USDA Food Grant	112,498
Other revenue	15,783
<b>Total Support</b>	<b>4,643,843</b>
<b>Expenses</b>	
<b>Program services</b>	
Head Start program PA22	2,708,780
Head Start program PA22 In-Kind	811,425
Head Start program PA20	36,290
Head Start program PA25	554,550
Head Start program PA25 In-Kind	123,352
Head Start program PA26	13,476
Early Reading First Grant	9,000
USDA Food Grant	112,498
Other program expenses	799
<b>Total Program Services</b>	<b>4,370,170</b>
<b>Support Services</b>	
Head Start program PA22	269,846
<b>Total Expenses</b>	<b>4,640,016</b>
Increase (Decrease) in Unrestricted Net Assets	3,827
<b>Net Assets at November 30, 2005</b>	<b>638,219</b>
<b>Net Assets at November 30, 2006</b>	<b>\$ 642,046</b>

The accompanying notes are an integral part of these financial statements.

**RURAL UTAH CHILD DEVELOPMENT  
STATEMENT OF FUNCTIONAL EXPENSE  
For Year Ended November 30, 2006**

	Program Services							Total	Support Services	Total
	PA 22	PA 22 In-Kind	PA 20	PA 25	PA 25 In-Kind	PA 26	USDA Food	ERF / Other		
Wages	\$ 1,269,144	\$ 486,847	\$	\$ 382,358	\$ 85,067	\$	\$	\$ 9,000	\$ 215,651	\$ 2,448,067
Employee benefits	372,728	178,609		75,039	20,515				43,924	690,815
Travel	85,275	92,119	19,556	16,493	8,498	13,476			3,275	238,692
Supplies										
Instructional	600			6,294						6,894
Other	213,066	53,850		22,975	9,272					299,163
Child Nutrition	59,146			2,046			112,498			173,690
Health	12,081			34						12,115
Transportation	269,983									269,983
Occupancy										
Rent & maintenance	171,243			14,602					1,412	187,257
Interest	7,025									7,025
Utilities	93,975			11,163						105,138
Parent programs	32,045			5,934					789	38,768
Depreciation *	55,097			14,796						69,893
Other	67,372		16,734	2,816				799	4,795	92,516
	<u>\$ 2,708,780</u>	<u>\$ 811,425</u>	<u>\$ 36,290</u>	<u>\$ 554,550</u>	<u>\$ 123,352</u>	<u>\$ 13,476</u>	<u>\$ 112,498</u>	<u>\$ 9,799</u>	<u>\$ 269,846</u>	<u>\$ 4,640,016</u>

\* = The depreciation expense is permitted by Generally Accepted Accounting Procedures, however, it is not for the schedule of federal awards since federal funds were used to purchase the assets.

The accompanying notes are an integral part of these financial statements.

**RURAL UTAH CHILD DEVELOPMENT  
STATEMENT OF CASH FLOWS  
For Year Ended November 30, 2006**

**Cash Flows From Operating Activities**

Increase in unrestricted net assets	\$ 3,827
Adjustments to reconcile increase in unrestricted net assets to net cash provided (used)	
Depreciation	69,893
Gain on sale of building recorded as grant revenue	(27,331)
(Increase) decrease in operating assets:	
Accounts receivable - net	(113,671)
Prepaid expenses	(14,337)
Deposits	(500)
Increase (decrease) in operating liabilities:	
Accounts payable	(215,191)
Accrued liabilities	73,284
Deferred revenue	(3,606)
<b>Net Cash Provided by Operating Activities</b>	<u>(227,632)</u>

**Cash Flows From Investing Activities**

Purchase of property and equipment	(171,069)
Proceeds from the sale of property & equipment	31,358
<b>Net Cash Used by Investing Activities</b>	<u>(139,711)</u>

**Cash Flows From Financing Activity**

Proceeds from notes payable	116,250
Principal payments on note payable	(3,919)
<b>Net Cash Used by Financing Activity</b>	<u>112,331</u>

**Net Decrease in Cash** (255,012)

**Cash Balance, Beginning of Year** 127,560

**Cash Overdraft Balance, End of Year** \$ (127,452)

**Supplemental Disclosures of Cash Flow Information**

Cash paid during the year for:	
Interest	\$ 7,025

The accompanying notes are an integral part of these financial statements.

## **RURAL UTAH CHILD DEVELOPMENT NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### Nature of Activities

The Rural Utah Child Development (the Organization) was organized as a Utah private non-profit corporation under the provisions of chapter 6 of Title 16, Utah code Annotated, 1953 on March 6, 1966. The Organization is to administer and operate Head Start and Early Head Start programs throughout the southeastern part of the State of Utah, and is funded by grants from the Department of Health and Human Services and from the Department of Education.

#### Significant Accounting Policies

##### Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

##### Concentration of Risk

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant risk on cash and cash equivalents.

The Organization receives substantially all of its funding from governmental sources. Decreases in governmental support would have an adverse effect upon the Organization.

##### Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand and cash in bank accounts.

##### Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables. Receivables are written off when they are determined to be uncollectible. The allowance for doubtful accounts at November 30, 2006 was \$0.

##### Property and Equipment

The Organization capitalizes all equipment acquisitions in excess of \$5,000. Purchased property and equipment is capitalized at cost, where donated as support at their estimated market value at the date of the donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Fixed assets are depreciated using the straight-line method over the estimated useful lives of the assets.

Substantially all of the property and equipment have been purchased with funds from the Department of Health and Human Services. In the event that these items are disposed of, the Department of Health and Human Services may require any proceeds be refunded to them.



**RURAL UTAH CHILD DEVELOPMENT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

Significant Accounting Policies (Continued)

Property and Equipment (Continued)

A provision for depreciation of each asset has been computed using the straight-line method over its estimated useful life, which range from 5 to 30 years. The cost of the assets, less the estimated residual value, determines the depreciable basis.

Net Assets

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization presents a statement of cash flows. As of November 30, 2006, the Organization did not have any temporarily or permanently restricted net assets.

Income Taxes

The Organization qualifies as exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code, and therefore, has no provision for income taxes.

Grant Revenue

Grant revenues are recognized as expended up to the authorized grant award. The federal grants awarded to the Organization relating to funds included in this audit report consist of the following:

- a. U.S. Department of Health and Human Services, Head Start Grant No. 08CH0059/40, grant period December 1, 2005, through November 30, 2006. This grant is restricted for the purpose the grant was awarded and any excess is to be returned to the funding agency.
- b. Utah State Office of Education Grant for periods October 1, 2005 through September 30, 2006 and October 1, 2006 through September 30, 2007. These grants are restricted for the purposes the grants were awarded and any excesses are to be returned to the funding agency.
- c. U.S. Department of Education, Early Reading First Grant No. S359B060045, grant period October 1, 2006, through September 30, 2009. This grant is restricted for the purpose the grant was awarded and any excess is to be returned to the funding agency.

Pension Plan

The Organization sponsors a defined contribution pension plan that covers substantially all employees. Contributions to the plan are based on a percentage of gross wages under Code Section 401K deferment. For the period ended November 30, 2006 the amount of pensions expense was \$80,181.

Contributed Support

The Organization occupies at reduced or no charge certain premises owned by private individuals. The estimated fair rental value of the premises is reported as support and expense in the period in which the premises are used.

# RURAL UTAH CHILD DEVELOPMENT

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Significant Accounting Policies (Continued)

##### Contributed Support (Continued)

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Organization programs, principally in educational assistance. The value of this contributed time is accounted for by recognizing as support and expense the numbers of hours provided multiplied by the wage rate that would have to be paid if the volunteers were employees of the Organization.

Supplies and transportation are provided by various individuals and entities at reduced or no cost to the Organization. The value of these supplies and transportation is accounted for by recognizing as support and expense the fair value of the supplies or transportation in excess of actual payment as if actual cash payment had occurred.

##### Advertising

The Organization expenses advertising costs as incurred.

##### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of November 30, 2006.

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 135,100	\$ -	\$ -	\$ 135,100
Building	712,746	171,069	72,870	810,945
Vehicles	383,931	-	99,684	284,247
Office equipment	242,390	-	64,158	178,232
Center equipment	156,232	-	8,749	147,483
	<u>1,630,399</u>	<u>171,069</u>	<u>245,461</u>	<u>1,556,007</u>
Accumulated depreciation	(909,629)	(69,893)	241,434	(738,088)
	<u>\$ 720,770</u>	<u>\$ 101,176</u>	<u>\$ -</u>	<u>\$ 817,919</u>

**RURAL UTAH CHILD DEVELOPMENT  
NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 3 NOTE PAYABLE**

Note Payable consisted of the following as of November 30, 2006.

Note payable to a bank. Interest is LIBOR + 4.2% which was 9.402% at November 30, 2006. Monthly principal and interest payments of \$1,216 with a maturity date of March 2021. This Note is secured by the Organization's Huntington center.

Less current portion

\$	112,331
	<u>(4,071)</u>
<u>\$</u>	<u>108,260</u>

As of November 30, 2006, principal payments are scheduled to be as follows:

<u>Year</u>	<u>Amount</u>
2007	\$ 4,471
2008	4,910
2009	5,392
2010	5,921
2011	6,502
Thereafter	<u>85,135</u>
	<u>\$ 112,331</u>

**NOTE 4 LEASE COMMITMENTS**

The Organization presently uses various facilities, which are not owned by Organization, to provide office space and classrooms. These facilities are leased under short-term agreements that can be renewed under similar terms contingent upon grant funding being renewed. Lease payments for the year ended November 30, 2006 were \$95,970.



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**Jensen & Keddington, P.C.**

Certified Public Accountants

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Rural Utah Child Development

We have audited the accompanying financial statements of Rural Utah Child Development (a non-profit Organization) as of and for the year ended November 30, 2006, and have issued our report thereon dated June 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rural Utah Child Development's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Rural Utah Child Development's ability to initiate record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying *Schedule of Findings and Questioned Costs* as items B numbers 1 through 4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Utah Child Development's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as items B numbers 1 through 4.

We also noted certain additional matters that we have report to management in the *Schedule of Finding and Questioned Costs* section of this report.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Jensen & Keddington*

June 21, 2007



**Jensen & Keddington, P.C.**  
Certified Public Accountants

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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

Board of Directors  
Rural Utah Child Development

Compliance

We have audited the compliance of Rural Utah Child Development (a non-profit Organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended November 30, 2006. Rural Utah Child Development's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Rural Utah Child Development's management. Our responsibility is to express an opinion on Rural Utah Child Development's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rural Utah Child Development's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Rural Utah Child Development's compliance with those requirements.

As described in item C numbers 1 through 4 in the accompanying *Schedule of Findings and Questioned Costs*, Rural Utah Child Development did not comply with requirements regarding maintaining adequate accounting records of expenditures charged to expenditures that are applicable to its grant from the U.S. Department of Health and Human Services. Compliance with such requirements is necessary, in our opinion, for Rural Utah Child Development to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Rural Utah Child Development complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended November 30, 2006. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying *Schedule of Findings and Questioned Costs* as items C numbers 5 and 6.

### Internal Control Over Compliance

The management of Rural Utah Child Development is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Rural Utah Child Development's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Rural Utah Child Development's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying *Schedule of Findings and Questioned Costs* as items C numbers 1 through 6.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information of audit committee, management, Board of Directors and others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Jensen & Keddington*

June 21, 2007

**RURAL UTAH CHILD DEVELOPMENT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended November 30, 2006**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Expenditures</b>
<b><u>U.S. Department of Health and Human Services</u></b>			
Direct Program:			
PA 22 Head Start	93.600	NA	\$ 2,974,390
PA 20 CDA Training	93.600	NA	36,290
PA 25 Early Head Start	93.600	NA	547,629
PA 26 Early Head Start	93.600	NA	13,476
<b>Total U.S. Department of Health and Human Services</b>			<b>3,571,785</b>
<b><u>U.S. Department of Education</u></b>			
Direct Program:			
Early Reading First	84.359B	NA	\$ 9,000
<b>Total U.S. Department of Education</b>			<b>9,000</b>
<b><u>U.S. Department of Agriculture</u></b>			
Pass Through The Utah State Office Of Education Food Distribution	10.558	G-4	112,498
<b>Total U.S. Department of Agriculture</b>			<b>112,498</b>
<b>Total Federal Financial Assistance</b>			<b>\$ 3,693,283</b>

See notes to Schedule of Expenditures of Federal Awards.



**RURAL UTAH CHILD DEVELOPMENT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended November 30, 2006**

**Significant Accounting Policies**

The following information regarding the schedule of expenditures of federal awards is provided to assist the reader in understanding the accounting policies regarding, and the nature of the federal awards.

- a. **Basis of Accounting** - The schedule of expenditures of federal awards is presented on the accrual basis of accounting, the same basis used by the Organization in its financial reporting. Receivables are recorded when appropriate program expenditures are made and the Organization has a claim for reimbursement. For purpose of the Schedule of Expenditures of Federal Awards, the Organization considers equipment that has been capitalized, purchased with Federal funds, to be expenditures.
- b. **Depreciation** is not included in the Schedule of Expenditures of Federal Awards because all property and equipment has been purchased with Federal grant money. Therefore, including depreciation would result in the Organization being reimbursed for the expenditure twice.
- c. **Pass-Through Source of Awards** - The Organization receives the majority of its federal award programs from the U.S. Department of Health and Human Services.

**RURAL UTAH CHILD DEVELOPMENT**  
**SCHEDULE OF AWARDED GRANT REVENUES OVER ACTUAL EXPENSES**  
**For the Year Ended November 30, 2006**

Award Number	08CH0059/40				Total
	PA - 22	PA - 20	PA - 25	PA - 26	
Grant budgeted award amount	\$ 2,974,483	\$ 36,290	\$ 547,629	\$ 13,476	\$ 3,571,878
Actual grant expenses	(2,974,390)	(36,290)	(547,629)	(13,476)	(3,571,785)
Grant budgeted award amount over (under) actual expenses	\$ 93	\$ -	\$ -	\$ -	\$ 93

The above schedule shows the grant amounts that were awarded by the U.S. Department of Health and Human Services compared to the actual grant expenditures.

**RURAL UTAH CHILD DEVELOPMENT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended November 30, 2006**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of Rural Utah Child Development.
2. There were no material weaknesses disclosed during the audit of the financial statements.
3. There were six instances of noncompliance material to the financial statements of Rural Utah Child Development, which would be required to be reported in accordance with *Government Auditing Standards*, disclosed during the audit.
4. There were no material weaknesses and seven instances of reportable conditions in internal control which were disclosed during the audit of the major federal award programs of Rural Utah Child Development.
5. The auditor's report on compliance for the major federal award programs for Rural Utah Child Development expresses a qualified opinion.
6. There were five audit findings relative to the major federal award program that are required to be reported in accordance with *Government Auditing Standards*.
7. The programs tested as major programs included:  
Department of Health and Human Services – Head Start – CFDA No. 93.600
8. The threshold for distinguishing Types A programs was \$300,000.
9. Rural Utah Child Development does not qualify as a low-risk auditee.

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT AND GOVERNMENT AUDITING STANDARDS**

1. **No support for journal entry posted (Reportable Condition)**  
**Finding**  
Management has the responsibility to ensure that journal entries made to the general ledger are appropriate and have been supported by the appropriate documentation. During our audit we noted the following. The accountant posted various journal entries to move grant revenues from the current year to following year or visa versa. The documentation supporting the journal entries, such as invoices equaling the amount posted, was not placed in the Organizations files. This makes it difficult to verify the validity of journal entries. These journal entries were corrected during the audit.  
  
**Recommendation**  
We suggest the management of Rural Utah Child Development implement a system of documenting each journal entry posted to the accounting records.

**RURAL UTAH CHILD DEVELOPMENT'S  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
For the Year Ended November 30, 2006**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT AND GOVERNMENT AUDITING STANDARDS  
(Continued)**

**2. Bank Reconciliation (Reportable Condition)**

**Finding**

During our audit we noted that the book balance used in the original bank reconciliation prepared for the fiscal year end did not match the book balance on the trial balance. It appears that checks written prior to the fiscal year end, but voided after the bank reconciliation was prepared, adjusted the balance of cash account. This means that account balances can be adjusted after the period has been closed. As a result, accounting schedules printed as support for balances at a given point in time will no longer agree with the account balance. There appears to be a weakness in the accounting system which allows entries to be made to a closed period.

**Recommendation**

We suggest that the management of Rural Utah Child Development implement procedures which will ensure that after an accounting period has been closed no adjustments are made to those records.

**3. Segregation of Duties - Cash Receipts (Reportable Condition)**

**Finding**

During our audit we noted that non grant revenues received are given to the accountant to post to the accounting system and to prepare the deposit. As a result, there is not proper segregation of duties for cash receipts. The accountant has access to the asset, posts entries to the general ledger system and also prepares the bank deposit. This means that he could take the asset, and then alter the records by not recording the receipt, so that the missing asset would go undetected. This appears to be as a result of an attempt to run the office efficiently

**Recommendation**

We suggest that the management of Rural Utah Child Development implement either or both of the following procedures. 1) Give the accountant copies of the cash received to post to the accounting record, and have someone besides the accountant prepare the deposit and take the deposit to the bank. 2) Have someone besides the accountant open the mail and electronically deposit the checks directly to the bank, then give the checks to the accountant for posting to the system.

**4. Segregation of Duties - Cash Disbursements (Reportable Condition)**

**Finding**

During our audit we noted that there is not proper segregation of duties for cash disbursements. The accountant has access to the asset, posts to the system and also sends out the payments. This means that the accountant could have checks signed then modify them to pay personal bills etc. and then adjust the accounting records so that it would go undetected. The accountant could also prepare checks for personal expenses, forge the signatures and then adjust the accounting records so that it would go undetected.

**Recommendation**

We suggest that the management of Rural Utah Child Development have the accountant print checks, give the checks with appropriate back-up to the check signers and have someone else send out the payments. We also suggest that the management of Rural Utah Child Development have the signers scan the cleared checks on the bank statement for appropriateness and review the supporting documentation for checks they are unfamiliar with.

**RURAL UTAH CHILD DEVELOPMENT'S  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
For the Year Ended November 30, 2006**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT AND GOVERNMENT AUDITING STANDARDS  
(Continued)**

**5. Working Capital**

**Finding**

We observe that as of November 30, 2006, the Organization does not appear to have enough working capital to pay the liabilities without using draws on the next year's grant funds. The lack of working capital appears to have occurred in prior years. Management is aware of this situation, as well as, the Federal oversight agent over the Federal grants.

**Recommendation**

We recommend that the Organization implement procedure to increase working capital from non-Federal sources.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

**1. No support for journal entry posted (Reportable Condition)**

See Finding on page 17, B.1.

**2. Bank Reconciliation (Reportable Condition)**

See Finding on page 18, B.2.

**3. Segregation of Duties – Cash Receipts (Reportable Condition)**

See Finding on page 18, B.3.

**4. Segregation of Duties - Cash Disbursements 1 (Reportable Condition)**

See Finding on page 18, B.4.

**5. Support for Income Eligibility Summary Sheets (Reportable Condition)**

**Finding**

Management has the responsibility to maintain documentation to show compliance with the grant requirements regarding income eligibility. During our audit we noted that the lists of enrolled children identifying the child's income eligibility status, which are used to create the income eligibility summary sheets, had been discarded once those sheets had been created. RUCD was unable to regenerate the lists for use by the auditors. As a result, there was no direct link between the system which documents income eligibility status and the documentation of the RUCD's compliance with the grant's income eligibility rule. However, we were able to test the income eligibility summary sheets by using an annual income eligibility summary sheet combined with the rolls for the respective month. It appears that the individual responsible for this was not aware of the need to keep the documentation used to test compliance with the grant's income eligibility rule.

**Recommendation**

We suggest that the management of Rural Utah Child Development insure that the documentation used to test compliance with the grant's income eligibility rule be retained until the audit is complete, or for a minimum of three years, whichever is longer.

**RURAL UTAH CHILD DEVELOPMENT'S  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
For the Year Ended November 30, 2006**

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT  
(Continued)**

**6. Noncompliance with Davis Bacon Act (Reportable Condition)**

**Finding**

Management has the responsibility to ensure that the Organization complies with all laws relevant to major federal programs for which RUCD receives funding. During our audit we noted that the organization did not require construction contractors it hired to comply with the requirements of the Davis Bacon Act. This could result in a lawsuit by other contractors which submitted bids based on compliance with the Davis Bacon Act. This appears to have been caused not having experience with construction contracts funded by a federal program.

**Recommendation**

We suggest the management of Rural Utah Child Development ensure that the requirements of the Davis-Bacon Act are followed when they incur cost for construction.

**RURAL UTAH CHILD DEVELOPMENT'S  
RESPONSE TO FINDINGS AND RECOMMENDATIONS  
For the Year Ended November 30, 2006**

**Section B, Finding #1 - No support for journal entry posted (Reportable Condition)**

**Correction Action.**

RUCD has put together a system where the accountant has set up a file by month and all journal entries with back up are file by month.

**Section B, Finding #2 - Bank Reconciliation (Reportable Condition)**

**Correction Action.**

RUCD has amended their procedure and in the future all adjustments will be done by journal entry rather than by voiding checks so that the balances will agree.

**Section B, Finding #3 - Segregation of Duties - Cash Receipts (Reportable Condition)**

**Correction Action**

The Administrative Assistant will prepare deposits and using the Tela-scanner will make the deposit. Deposits with cash will be prepared the same as the checks but the Administrative Assistant will make those deposits at the bank. People will be required to get a check or money order if a cash deposits exceeds \$20.00.

**Section B, Finding #4 - Segregation of Duties - Cash Disbursements (Reportable Condition)**

**Corrective Action**

Segregation of duties will be split by having the Administrative Secretary send out all the payments rather than the accountant.

**Section B, Finding #5 - Working Capital**

**Corrective Action**

RUCD will work with the Federal Fiscal Representative for this Organization to resolve the issue of not having the working capital as outline above.

**Section C, Finding #5-Support for Income Eligibility Summary Sheets (Reportable Condition)**

**Corrective Action**

Head Start has not required we keep the income documentation once it was reviewed by staff and signed off. We understand the need for the documentation for the audit and therefore, we will start keeping this documentation until the audit is complete or for a minimum of three years, which ever is longer.

**Section C, Finding #6 - Noncompliance with Davis Bacon Act (Reportable Condition)**

**Corrective Action**

RUCD has added the Davis Bacon requirements to it fiscal policies. We have also become familiar with the requirements for the Davis Bacon and will follow the regulations in all future construction projects.

**RURAL UTAH CHILD DEVELOPMENT'S  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
For the Year Ended November 30, 2006**

2005 #1.

**No support for journal entry posted (Material Weaknesses)**

**Finding**

Management has the responsibility to ensure that journal entries made to the general ledger are appropriate and have been supported by the appropriate documentation. During our audit we noted the following. The accountant posted a journal entry which increased both revenues and expenses. The accountant stated that the revenues were being increased to match the grant budget. This would result in an expense being recorded when no expenses had actually been incurred. This appears to have been caused by the accountant not understanding the basis for posting grant revenues.

**Recommendation**

We suggest the management of Rural Utah Child Development procure additional training for the accountant to ensure that this does not happen in the future.

2005 #2.

**Bank Reconciliation (Material Weakness)**

**Finding**

Management has the responsibility to ensure that the cash balance on the general ledger is reconciled to the bank balance. During our audit we noted that the book balance used in the original bank reconciliation, prepared for the fiscal year end, did not match the book balance on the trial balance. We noted that checks written after year end, in December 2005, had been posted as reductions to cash as of November 30, 2005, rather than to set up an accounts payable. This results in both the cash balance and accounts payable being understated at year end. These items were adjusted during the audit.

**Recommendation**

We suggest that the management of Rural Utah Child Development make sure that the cash balance on the general ledger is reconciled to the bank balance.

2005 #3.

**Payroll Test (Reportable Condition)**

**Finding**

Management has the responsibility to ensure amounts paid to employees agree with supporting documents such as, time cards and approved pay plan in the employee's personnel file. During our audit, we performed a payroll test and found that for 3 out of 35 employees tested, the time sheets did not match the hours paid. These errors resulted in employees being under paid by \$24.05. Also, for one out of 35 employees tested there was not an approved pay plan in the employee's personnel file. The auditor performed additional procedures and determined that payroll expense did not need to be adjusted.

**Recommendation**

We suggest that the procedures be put in place to ensure that the amount employees are paid matches the employees time sheet and that proper documentation be put in the employees personnel file which supports the salary or hourly rate paid.



**RURAL UTAH CHILD DEVELOPMENT'S  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (Continued)  
For the Year Ended November 30, 2006**

2005 #4.

**Segregation of Duties - Cash Receipts (Reportable Condition)**

**Finding**

Management has the responsibility to ensure that all assets, such as cash, are protected from possible theft. During our audit we noted that there was not proper segregation of duties for cash receipts. The accountant has access to the asset, posts entries to the general ledger system and also takes the deposit to the bank. This means that the accountant could take the asset then alter the records so that the missing asset would go undetected.

**Recommendation**

We suggest that the management of Rural Utah Child Development give the accountant copies of the cash receipts to post, and have the administrative assistant, prepare the deposit and have someone else deposit the money.

2005 #5.

**Segregation of Duties - Cash Disbursements (Reportable Condition)**

**Finding**

Management has the responsibility to ensure that all assets, such as cash, are protected from possible theft. During our audit we noted that there was not proper segregation of duties for cash disbursement. The accountant has access to the asset, posts entries to the general ledger system, and also sends out the payments. This means that the accountant could have checks signed then modify them to pay personal bills etc., and then adjust the accounting records so that it would go undetected.

**Recommendation**

We suggest that the management of Rural Utah Child Development have the accountant print checks, give the checks with appropriate back-up to the check signers and have someone else send out the payments. We would also suggest that the signers scan the cleared checks on the bank statement for appropriateness.

2005 #6.

**Working Capital**

**Finding**

We observed that as of November 30, 2005, the Organization does not appear to have enough working capital to pay the liabilities without using draws on the next year's grant funds. The lack of working capital appears to have occurred in prior years. Management is aware of this situation, as well as, the Federal cognizant agent over the Federal grants.

**Recommendation**

We recommend that the Organization implement procedure to increase working capital from non-Federal sources.

**RURAL UTAH CHILD DEVELOPMENT'S  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (Continued)  
For the Year Ended November 30, 2006**

2005 #7.

**In-Kind – Missing Records (Reportable Condition)**

**Finding**

Management is responsible for maintaining supporting documentation for in-kind donations claimed on financial statements. During our audit we tested the in-kind donations recorded. We traced monthly totals for individual sites to supporting documentation. Out of 35 selected for testing, there were four which had no supporting documentation, or the documentation did not agree with the amount claimed. As a result, \$157.53 claimed as in-kind revenues and expenses were eliminated during the audit. Management was unable to find the supporting documents.

**Recommendation**

We suggest the management of Rural Utah Child Development develop procedures to ensure that accurate records are maintained for all in-kind revenues claimed.

2005 #8.

**In-Kind – Revenues claimed twice (Reportable Condition)**

**Finding**

Management has the responsibility to insure that all in-kind donations are claimed only once. During our audit we tested the in-kind donations recorded. We compared the monthly totals of in-kind revenues claimed for individual sites to supporting documentation. Out of 35 selected for testing there was one which had claimed the revenue in two separate months. As a result, \$1,637.94 claimed as in-kind revenues and expenses were eliminated during the audit. This appears to have been caused by inadvertent errors in accumulating the total of supporting documents.

**Recommendation**

We suggest the management of Rural Utah Child Development develop procedures to ensure that all in-kind revenues are recorded once.